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UNCLAS SECTION 01 OF 02 ANKARA 006262

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E.O. 12958: N/A
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SUBJECT: Foreign Trade Officials' Views on Cancun, IPR
and Free Zones

Ref: (A) Ankara 5594 (B) Ankara 5808

Summary

1. (SBU) Turkish Foreign Trade officials maintained that agriculture, particularly elimination of export subsidies, was their key concern at the Cancun Ministerial. This issue led the Turks to support the G-21 at Cancun, though our interlocutors told us that actually joining the group would have been "politically incorrect" with respect to the European Union. Foreign Trade also suggested that there might have been a chance for progress in Cancun had the talks gone on longer, and if there had been a better flow of information at the Ministerial. The Foreign Trade Undersecretary told us he agreed with the EU that WTO decision-making needed to be revised. On tax reform, which is a key condition for the IMF's sixth review, Foreign Trade believes that free zone incentives will not be eliminated, arguing that the IMF should focus on bringing in tax revenue from the informal sector. Econoff raised USG concerns with IPR protection, particularly for pharmaceuticals. End Summary.

2. (SBU) Econ Counselor discussed Turkey's role at the Cancun Ministerial and tax reform of the free zone system with Foreign Trade Undersecretary Tuncer Kayalar on October 6. Meeting with Econoff on September 26, Husnu Dilemre, Deputy Director General for Agreements at Foreign Trade, and Bilgehan Sasmaz, of Foreign Trade's free zones department, discussed the Cancun Ministerial, intellectual property problems and the free zones.

Cancun - Agriculture the Key Issue for Turkey

3. (SBU) Dilemre began by reiterating Turkey's concerns about liberalization in agriculture (ref A). He maintained that the GOT does not have the resources to offer sufficient domestic subsidies or the legal right to implement safeguard measures to counter developed world food subsidies. Turkey is very cautious about any dilution in tariffs - the only (legal) tool it has to protect its farmers from the effects of foreign subsidies. Turkey's position, insisting on elimination of export subsidies in agriculture, was identical to that of the Group of 21 in this area.

4. (SBU) Dilemre said that Turkey nevertheless did not formally join the G-21 in Cancun, as this would have been "politically incorrect" in view of its customs union with the EU. He explained that Turkey has no difficulty in aligning its position with the EU on areas covered by the customs union, such as public procurement and investment. Despite the fact that the EU does not attempt to consult with the GOT on the WTO talks in advance and that Turkey is a long way from becoming an EU member state, Turkey does factor EU positions into its decisions at the WTO. Dilemre maintained, however, that the customs union does not require complete alignment of negotiating positions.

5. (SBU) Dilemre opined that there might have been a chance for progress at the Cancun Ministerial had the talks been allowed to continue longer, and if there had been a better flow of information between the various

negotiations. He suggested that some developing country representatives might not have stonewalled on Singapore issues if they had been made aware of the limited movement in the agriculture negotiations.

16. (SBU) Kayalar attributed the failure at Cancun to excessively high expectations on the part of some developing countries. He said the G-21 pressed Turkey to join, but the Turkish delegation decided not to do so in view of its relations with the EU. Kayalar does not expect the G-21 to last, given internal disagreements. He said he agreed with EU Trade Commissioner Lamy that the WTO's consensus-based decision-making system needed to be revised.

Laying a Marker on IPR

17. (SBU) Econoff told Dilemre and Sasmaz that the USG continues to have serious concerns about Turkish protection of intellectual property rights, particularly for pharmaceuticals. In particular, proposals to delay data exclusivity protection until 2007 and to weaken patent protection are major concerns (ref B), and could, if not addressed, result in Turkey's elevation in the Special 301 Watch List in 2004. Dilemre responded that Foreign Trade had been involved in the interagency process on these proposals, but did not know the situation in detail. He promised to look into this issue.

Free Zones

18. (SBU) Kayalar criticized the IMF's insistence on eliminating tax exemptions for Turkey's free zones, arguing that the Fund should instead focus on Turkey's huge, untaxed shadow economy. Noting that State Minister Tuzmen staunchly defended the free zone system, Sasmaz told us he did not believe that upcoming tax reforms would completely eliminate tax preferences for the free zones. He also opined that the tax incentives at the zones were not as attractive as they appeared to be, since businesses in the zones are more strictly audited with regard to their (reduced) tax liabilities, while many companies outside the zones manage to avoid a large proportion of their (unreduced) tax bills.
Edelman